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College of Business Administration

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Pennsylvania Business Survey

March 1989

NICE START FOR 1989

Initial indications show that **economic conditions remain healthy in the Commonwealth.** This falls in line with expectations spelled out in last month's *Pennsylvania Business Survey*. **The outlook continues to call for a strong first half of the year with a slowdown in growth thereafter.** The January uptick in the index of leading indicators (chart) was strong, suggesting that a slowdown before then is unlikely. This strong start is reflected in developments in job and employment trends. Manufacturing activity is holding up. Evidence of a slight moderation in growth is found in retail activity. Indicators of building activity also point to a slowdown.

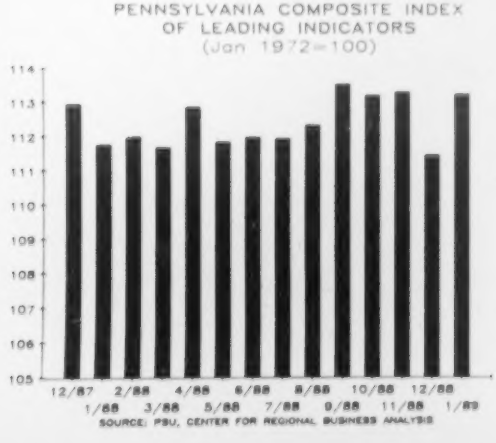
The health of the manufacturing sector will again play a major role in determining the pace of economic growth in Pennsylvania during 1989. Data for January point to continued strength in the sector. The January decline in jobs was not as strong as normal. Historical trends show that factory jobs tend to fall by 11,000 in January for seasonal reasons. This pattern is not reflective of the overall health of these industries. This January, a much smaller decline of 5,000 was registered. Seasonally adjusted manufacturing job levels rose by 6,000, settling at 1,064,000. This leaves factory-related positions at their highest reading in three years after seasonal trends are discounted.

The average workweek is thought of as a leading indicator of hiring trends in manufacturing. The logic is that the workweek will rise with the onset of increased demand for manufactured goods. Only until producers are convinced of the "permanency" of the improved conditions will they step-up hiring. When conditions deteriorate, producers will decrease workweeks rather than immediately reduce the number of workers. The hypothesized relationship held prior to the onset of the current upward trend in manufacturing jobs (chart). The workweek rose throughout 1985 and 1986 while manufacturing jobs started on an upward track in 1987. **Recent trends show the average workweek leveling off. This may be a sign that hiring activity may slacken a bit, a major plank in our forecast spelled out in last month's *Survey*.**

Manufacturing production continues to hold its own as the Pennsylvania Manufacturing Activity Index hovers at post-recession highs. If our expectations pan out, the Index may be approaching its short-term peak.

Construction activity shows signs of weakening, but the dropoff from record levels of activity is not especially significant. At 2,436, the number of new housing units authorized by permit in January was down by 300 from a year ago. (Beginning with this issue of the *PBS*, housing permit authorizations will be reported on a monthly basis. In the past, the data have been to reported on a quarterly basis. This should allow us to present a more detailed overview of economic activity within the Commonwealth.)

The 10.5 percent decline in authorizations between January 1988 and 1989 was not repeated in the majority of counties making up the Philadelphia and Pittsburgh/Beaver Valley metro areas (chart). All counties in the latter realized double-digit permit gains over the year ending in January. Only two of the five Pennsylvania counties in the former realized



declines in authorizations. Delaware County tripled the number of permits from January 1988. (The counties in Pennsylvania's two largest regions have each of their permitting authorities surveyed each month which allows for monthly analyses. All other counties have only a portion sampled, making monthly analyses of their trends suspect.)

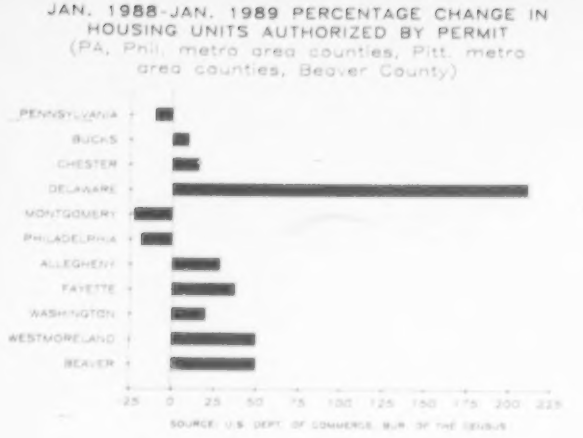
Despite signals suggesting that activity is slowing, building-related jobs continue to rise after seasonal trends are discounted. In that the typical January reduction in jobs was not as pronounced as expected, another seasonally adjusted record high total was recorded. The logic underlying the seasonal adjustment process is illustrated nicely in construction jobs (chart). Jobs rose throughout the spring and summer months of 1988 before tailing off considerably during the year's final quarter. The gains in the earlier months were stronger than normal, resulting in continuous gains in seasonally adjusted readings. The late-year declines were not as pronounced as usual, resulting in further gains in the adjusted series.

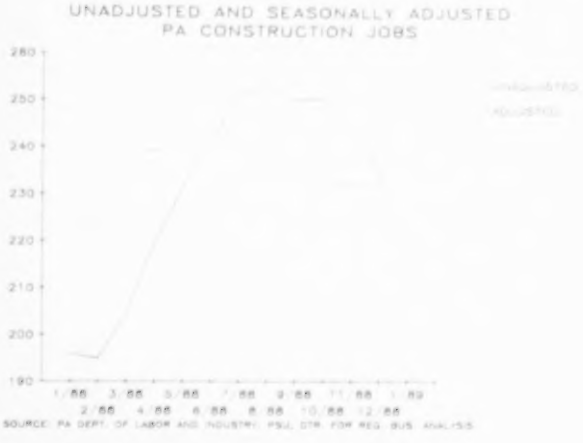
Retail sales continue to grow in Pennsylvania, but growth in 1988 was the slowest since the onset of economic recovery. Sales totaled $77.9 billion, a 7.3 percent gain over 1987. On a brighter note, growth exceeded the national advance for the fourth straight year. Jobs in retail establishments

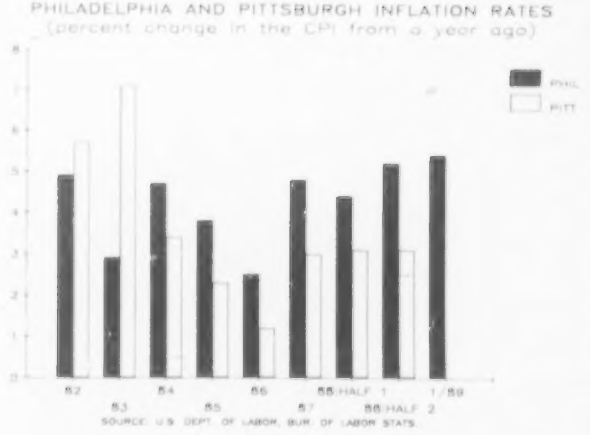
Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1988-89		1988	1988-89		1988	1988-89		1988
	Dec.	*Jan.*	*Jan.*	*Dec.*	*Jan.*	*Jan.*	*Dec.*	*Jan.*	*Jan.*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,108	4,994	4,893	5,071	5,085	4,983	111.1	111.4	109.1
Nonmanufacturing									
No. of wage and salary jobs (thous.)	4,047	3,939	3,846	4,013	4,021	3,928	124.5	124.7	121.8
Mining	29	28	29	29	29	30	60.4	59.8	62.7
Contract construction	235	212	196	238	239	222	129.3	129.7	120.9
Transportation	152	148	144	149	150	147	92.8	93.3	91.2
Public Utilities	104	104	105	104	104	105	103.3	103.2	104.2
Wholesale trade	273	270	265	272	273	267	122.8	122.9	120.5
Retail trade	912	871	858	883	887	874	123.2	123.6	121.9
Finance, insurance & real estate	293	292	289	294	295	291	135.0	135.4	134.0
Service & miscellaneous	1,345	1,325	1,274	1,348	1,350	1,298	156.3	156.5	150.5
Federal government	139	139	141	140	139	142	108.9	108.8	111.0
State & local government	566	551	545	557	559	552	95.5	95.9	94.8
Manufacturing									
No. of wage and salary jobs (thous.)	1,060	1,055	1,046	1,058	1,064	1,055	78.9	79.3	78.6
Durable goods	606	602	596	605	607	602	74.8	75.0	74.3
Nondurable goods	454	453	450	453	457	454	85.2	85.8	85.2
Ave. wkly. hrs. worked by prod. workers	41.1	40.9	40.9	40.5	41.0	41.0	102.5	103.7	103.7
Total wkly. person-hours worked (mils.)	30.0	29.7	29.1	29.5	30.1	29.5	77.0	78.5	76.9
Total wkly. payroll (mil. dols.)	313.7	310.2	295.9	306.9	313.6	299.3	136.6	139.6	133.2
Average hourly earnings (dollars)	10.47	10.43	10.16	10.40	10.41	10.14	177.8	177.9	173.3
Average weekly earnings (dollars)	430.32	426.59	415.95	420.36	426.38	415.81	181.7	184.3	179.7
Steel production (thous. tons)	1,058	1,185	1,110	n.a.	n.a.	n.a.	58.2	58.6	54.8
Industrial electric power sales (mil. kwh)	3,768	3,857	3,718	3,864	3,900	3,815	104.6	105.6	103.3
Mining									
Anthracite coal (thous. net tons)	258	233	215	252	301	279	51.5	61.6	57.2
Bituminous coal (thous. net tons)	6,436	6,044	5,760	7,470	6,020	6,057	105.9	85.4	85.9
Construction contracts awarded (mil. dols.)									
Total	666.3	550.0	545.9*	809.7	866.5	859.9*	251.7	269.3	267.3*
Residential building	318.6	298.5	252.8*	397.3	488.3	431.3*	282.3	347.0	306.4*
Nonresidential building	221.1	145.5	184.2*	270.6	199.5	257.1*	249.4	183.9	237.0*
Nonbuilding (utilities and public works)	126.6	106.1	108.9*	141.8	178.7	171.5*	195.6	246.6	236.6*
Housing units authorized by permit	3,402	2,436	2,722	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Retail Sales (mil. dols.)	8,273	n.a.	7,658†	6,990	n.a.	6,389†	n.a.	n.a.	n.a.
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,562	5,592	5,388	5,563	5,679	5,483	115.8	118.2	114.1
Unemployed									
No. of persons (thous.)	244	292	357	270	259	327	67.3	64.6	81.4
Rate (percentage of labor force)	4.2	5.0	6.2						
Rate, seasonally adjusted				4.7	4.3	5.6			
Civilian labor force, no. of persons (thous.)	5,780	5,884	5,745	5,833	5,938	5,810	112.0	114.1	111.6
Initial claims for unemployment benefits	124,392	132,682	143,595	86,739	78,551	91,416	60.6	54.9	63.8

Consumer Prices, all items	Urban Indexes (1982-84 = 100)			Percentage Change	
	1988-89		1988	*Month Ago*	*Year Ago*
	Dec.	*Jan.*	*Jan.*		
U.S. city average	120.5	121.1	115.7	+0.5	+4.7
Philadelphia	125.6	125.7	119.3	+0.1	+5.4
Pittsburgh	116.7	n.a.	113.0†	n.a.	+3.3

[1] Total includes workers on strike. * = figure revised † = figure for December 1987 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.







continue upward. At a seasonally adjusted 887,000, job readings rose by 4,000 from December as post-Christmas layoffs were probably either delayed or were not as large as usual.

The job picture remains dismal in the mining sector. Payroll positions are holding steady at all-time lows. At the same time, output of bituminous coal which makes up more than 90 percent of all coal mined in Pennsylvania, has been on an erratic upward path since 1987 (chart). **More bituminous coal is being produced with fewer workers** as efficiency-enhancement efforts appear to have been successful.

These and other trends in the nonmanufacturing sector resulted in additional job gains. Seasonally adjusted jobs rose from 4,013,000 in December to 4,021,000 in January. As in other areas, the cause for the strong performance after discounting seasonal pressures was the unusually small deteriorations in conditions during the month. **January's nonmanufacturing job totals represent yet another record high.**

January's mostly positive developments were reflected in substantial improvement on the employment/unemployment front. At a seasonally adjusted 4.3 percent, the jobless rate was down 0.4 percentage point from December and 1.3 points from a year ago. This represents a continuation of recent improvements and leaves this measure of the economy's health at a 15-year low. Paving the way for January's drop in the unemployment rate was another increase in the number of Pennsylvanians officially listed as employed which cracked the seasonally adjusted 5,600,000-mark for the first time.

At the national level, much of the recent news has revolved around inflationary pressures. **Price pressures in Pennsylvania's largest metro area, Philadelphia, appear to be on the rise.** Inflation in the Philadelphia region is currently running at its strongest pace of the recovery (chart). After rising 4.4 percent in the first half of 1988, prices rose 5.2 percent in the second half on an annual basis. **Price gains have not been nearly as large in the Pittsburgh area.** Inflation rates of 3.1 percent were recorded in the first and second halves of 1988. Price gains were considerably stronger during the first year or two of the recovery in the region than they have been of late. (See the September *PBS* for a shorter-term overview of inflation trends in these two metropolitan areas.)

— *William D. Anderson*

Personal Income Report

Personal income growth picked up a notch in Pennsylvania during the third quarter of 1988. The advance, whether measured on a quarterly or annual basis, was among the strongest of the current economic recovery. This broad-based measure takes into account earnings, transfer payments, and dividends/interest/rent in calculating income estimates. For

last year's third quarter, personal income totaled $196.3 billion in the Commonwealth. This represents a gain of 7.3 percent from the same period in 1987 and 2.3 percent from the previous quarter. Except for 1987's final quarter and 1988's first quarter, the annual advance has not been that large since 1981. The quarterly gain was also the third largest in seven years.

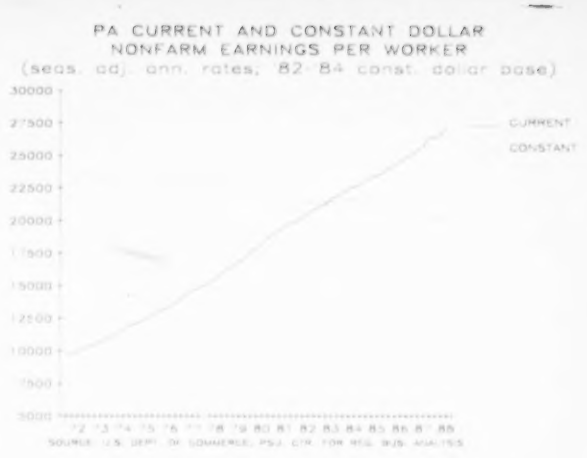
These trends provide additional evidence that 1988 was a particularly strong year for the Pennsylvania economy. A slight rebound in the manufacturing sector has been given some credit for the economy's recent turnaround. The 6.9 percent gain in earnings in the manufacturing sector during the first three quarters of 1988 represents the second strongest advance since 1981.

Positive trends dominate the picture when the focus is on recent developments. Long-term trends, however, suggest that the situation is far from rosey. Nonfarm earnings per worker in Pennsylvania have advanced 170 percent since 1972 in current dollars (chart). This increase has failed to match the gain in prices. Constant-dollar, or inflation-adjusted, average nonfarm earnings have actually declined slightly since the early 1970s. On the bright side, there has been some upward pressure on real nonfarm earnings since the onset of recovery in the early 1980s.

Pennsylvania personal income
(seas. adj. ann. rates; millions of dollars)

	Personal income	Pct. change Qt. ago	Pct. change Yr. ago	Nonfarm personal income	Pct. change Qt. ago	Pct. change Yr. ago
1988:IIIQ	196,300	2.3	7.3	195,069	2.2	7.3
1988:IIQ	191,967	1.4	6.9	190,884	1.4	7.1
1988 YTD	192,551	n.a.	7.3	191,423	n.a.	7.3

Source: U.S. Dept. of Commerce, Bur. of Econ. Analysis



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